BH | Beech Hill Advisors

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Second Quarter Fixed Income Letter to Clients

For the first part of the second quarter, prices on US Treasury Bonds continued to aggressively slide downward, as interest rates rose. Soaring inflation readings and the Federal Reserve's pivot to a more restrictive stance has raised the market's concern over how quickly and aggressively the Fed would need to act to hamper inflation. Longer-term bonds with more interest rate sensitivity felt most of the impact, but short-term bonds also declined on rate concerns.

Over the second half of the quarter, prices of fixed income securities have finally stopped going down and seem to be stabilizing. If interest rates maintain some stability, we believe the market can sustain positive momentum. Valuations on Tax-Free Municipal Bonds remain relatively attractive on a historical basis, and we feel there is a reasonable probability that this market will benefit from upcoming favorable seasonal dynamics in which reinvestment income typically outpaces issuance and drives firm performance during the summer months.

The total return of the S&P Municipal Bond Index was –2.81% for the quarter. Municipal Bonds have demonstrated strong demand relative to US Treasury bonds over the past month as softening economic data stoked recession fears and tempered the market's outlook for future Fed policy tightening.

The US Treasury 10-year bond began the quarter with a yield of 2.32% and ended at 2.88%, while the 30-year bond, i.e., the long-end of the yield curve, began the quarter at around 2.44% and ended at 3.14%.

We recommend a modest intermediate-term stance on allocations along with moderate cash levels. Also, we prefer higher-quality bonds overall in this volatile environment.

Evan Slater
Fixed Income Portfolio Manager